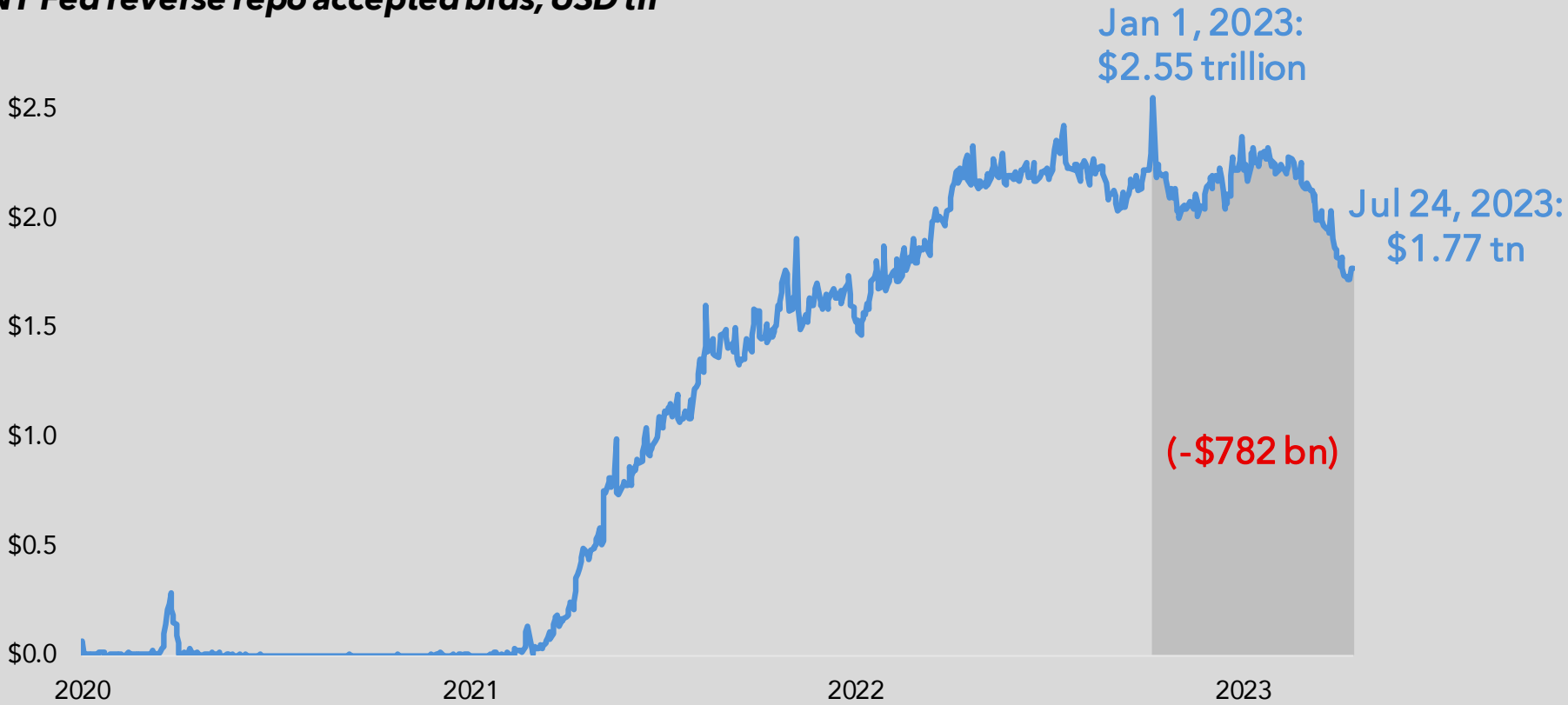


Chart of the Day

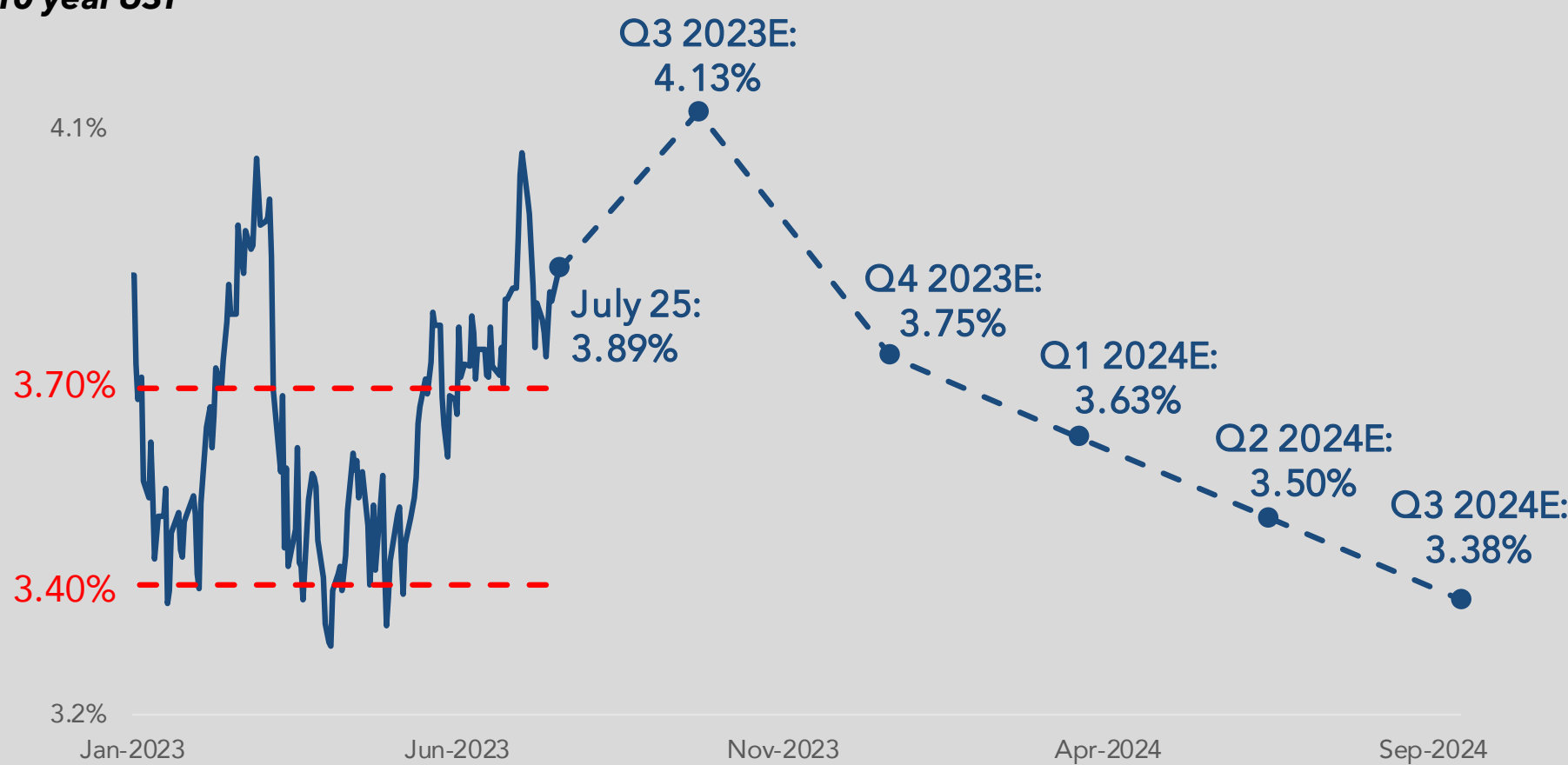
Between the June 1 US debt ceiling resolution and late September, the US Treasury will be replenishing its coffers by issuing nearly \$1 trillion of US Treasuries at a time when the Fed is reducing its balance sheet by \$95 bn per month. Money markets, with nearly \$2 trillion of their \$5 trillion in funds parked in the Fed's reverse repo facility, are likely to absorb the bulk of the issuance. To lure investors, Treasury will face higher interest costs while markets will be concerned about liquidity and unintended consequences.

NY Fed reverse repo accepted bids, USD tn



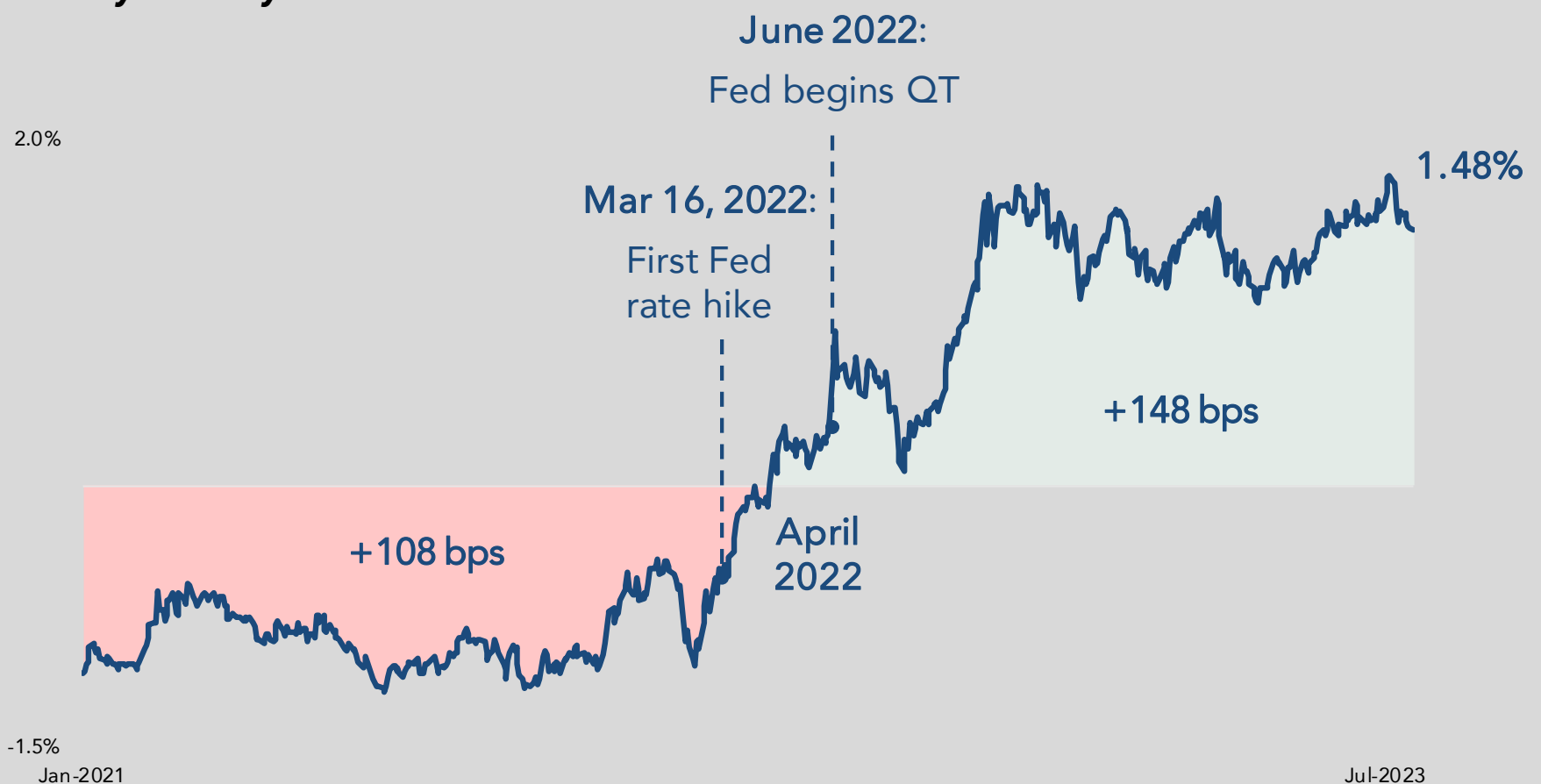
The unexpected resilience of the US economy in 1H 2023 has prolonged the Fed's hiking cycle beyond market expectations. In early Q3 2023, 10 year yields broke out of their 1H trading range, rising above 4% on July 6, before trending lower again following the soft June CPI report. MUFG's Head of Macro Strategy, George Goncalves, expects rates to peak in Q3 and move progressively lower over the next year.

10 year UST



Even after the Fed pause, US real rates may remain elevated. Since the Fed began its accelerated "double tightening" (raising rates, reducing balance sheet) in March 2022, and as the economy has shown resilience with inflation declining, US "real" rates have moved more firmly positive. With "real" rates likely to remain elevated during a "higher for longer" Fed pause, assessing the impact of "sufficiently restrictive" becomes more challenging.

Real 10 year UST yields



Source: (1-3) Bloomberg. Data as of July 25, 2023. MUFG Rates Strategy (George Goncalves).

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"Macro stability isn't everything, but without it, you have nothing."